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REPORT OF THE AUDITOR GENERAL TO THE LEGISLATIVE ASSEMBLY

February 1992

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario
K1A OG6

February 26, 1992

The Honourable Michael Ballantyne, MLA
Speaker of the Legislative Assembly
of the Northwest Territories
Legislative Assembly
Yellowknife, N.W.T.

Dear Mr. Ballantyne:

I hereby transmit a report to be laid before the Legislative Assembly in accordance with the provisions of section 30 of the Northwest Territories Act, R.S.C. 1985, c.N-22.

The report deals with "other matters" arising from my examiniation of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1991 that, in my opinion, should be brought to the attention of the Legislative Assembly. The report also includes my recommendations and the related management responses.

Cordially yours,

L.Denis Desautels, FCA
Auditor General of Canada

Report of the Auditor General

For the Year Ended March 31, 1991

Introduction

We audited the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1991. We designed the audit so we could express an opinion on the Government's 1991 consolidated financial statements.

Our audit included reviews of certain operating, legislative and financial control systems and financial management practices, with those detailed tests we considered necessary.

This office also audited the following agencies of the Government and issued reports during the past year.

Audit	Year End	Reported to
Workers' Compensation Board	December 31, 1990	Minister
Northwest Territories Housing Corporation	March 31, 1991	Minister
Northwest Territories Power Corporation	March 31, 1991	Minister
Northwest Territories Liquor Commission	March 31, 1991	Minister
Legislative Assembly Retiring Allowances Fund	March 31, 1991	Chairman, Management and Services Board
Arctic College	March 31, 1991	Minister
Petroleum Products Revolving Fund	March 31, 1991	Minister
NWT Development Corporation	March 31, 1991	Minister

Our audit staff received full access to all vouchers, records, documents and files and all explanations and information requested during the audit of the above accounts. We thank the staff of departments and agencies for their cooperation.

This report is part of the Auditor General's Report on the 1991 financial statements of the Government of the Northwest Territories, as required by Section 30 of the Northwest Territories Act. The Act requires the Auditor General to provide a report on "other matters" within his audit scope that he feels should be reported to the Legislative Assembly. Accordingly, we report the following items of concern, with our recommendations and management's responses.

Included in Chapter 1 of this report are comments on my reservation in my report on the financial statements of the Government.

The remainder of Chapter 1 and the rest of this report contain comments on other items that we believe will be of interest to Members of the Legislative Assembly, but are not, individually or collectively, significant enough to require a reservation of opinion in the Auditor General's report on the Government's 1991 financial statements.

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Chapter 1

Financial Statement Issues

1.1 Reservation in our audit opinion - Account Receivable from the Department of Indian Affairs and Northern Development (DIAND)

What a reservation means

This year our audit report contains a reservation of opinion on the financial statements. A reservation can mean one of three things:

i) that the auditor disagrees with the information in the financial statements;

ii) that, for some reason, the auditor was unable to do all the audit work necessary, or;

iii) that the auditor is unable to reach a conclusion on all or part of the financial statements.

The DIAND issue

Before the 1988 Health Care Transfer, Canada provided most of the health care received by NWT residents. This is now provided by the Government of the Northwest Territories (the Government). Canada still has responsibility for health care costs of status Indians and Inuit. An agreement between DIAND and the Government states that the Government will provide health care to status Indians and Inuit for Canada, with Canada paying the cost of these services.

Included in the Government's financial statements is some $45 million in accounts receivable for hospital care for status Indians and Inuit. DIAND is disputing $32 million of this amount because it disagrees with how the Government is calculating the claimed costs. The Government has billed DIAND for health care provided, but DIAND has refused to pay a portion of the bills.

As the Government notes in its financial statements, it is vigorously pursuing its claims for the full $45 million.

This dispute is complex. It involves many agreements, detailed calculations of the billings, and some constitutional issues. At this time we cannot reach a conclusion about the account receivable in the Government's financial statements. As an independent auditor, the Auditor General of Canada cannot take sides but has to weigh carefully all the evidence to reach an opinion. We do not disagree with the calculation of the Government's claimed amount but there is not enough audit evidence for us to conclude whether all this money will be recovered. The Government has not provided for any possible loss as it also does not know the future outcome of its claim. This is the reason for the reservation in our audit report.

1.2 Comment on the Government's cash position and borrowings

As shown in Exhibit 1, at March 31, 1991, the Government had a surplus of $88 million and an overdrawn bank balance of $22 million. If the Government wants to spend more, it will have to borrow.

Deteriorating cash position

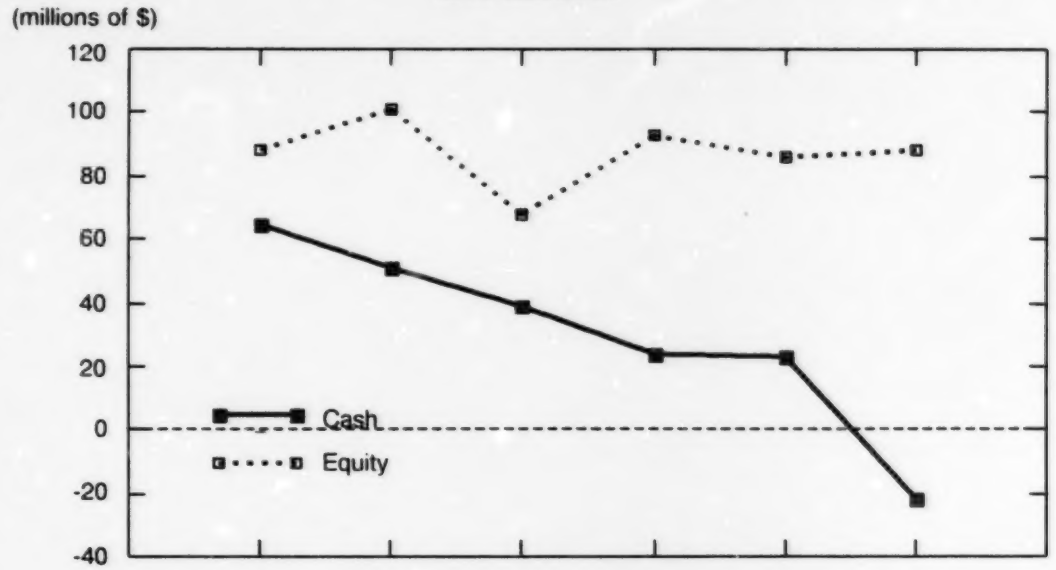
Over the past few years, the Government's equity has remained reasonably constant but cash has decreased steadily. **Exhibit 1** below shows the trend in cash and equity for the last several years[1].

The equity has remained fairly constant. For five out of the last 6 years, it has been between

1 Exhibit 1 deals with 'unconsolidated' cash and equity, or the cash of the Government itself.

EXHIBIT 1

GOVERNMENT UNCONSOLIDATED CASH AND EQUITY
AS AT MARCH 31



	1986	1987	1988	1989	1990	1991
Cash	65	51	39	24	23	-22
Equity	88	101	68	93	86	88

$85 million and $101 million. Yet, the amount of cash decreases annually. As of March 31, 1991, the Government's own cash (excluding the consolidated entities) is really an overdraft or borrowing of $22 million.

Future borrowings must be considered in the context of the Government's revenue position:

- Eighty six per cent of its revenues comes from Canada, beyond the Government's direct control.
- Only 14 per cent comes from Territorial sources such as taxes. These are directly under the Government's control.

Current borrowings will require future repayments of principal and interest. If revenues from Canada cannot cover these repayments, increases to Territorial revenues may be needed.

Chapter 2

Compliance Issues

2.1 Departments of Legislative Assembly, Personnel, Health and Social Services

The Financial Administration Act (FAA) requires that departments control their expenditures at the activity level. Four departments did not comply fully with this requirement during the fiscal year 1990-91.

Section 32(1) of the FAA states ". . . no person shall incur any expenditure that causes the amount of the activity set out in the Estimates upon which the appropriation is based to be exceeded." It is the responsibility of departmental managers to prevent overexpenditures.

Departments overexpended in seven Operations and Maintenance activities totalling $6.2 million in 1990-91. **TABLE 1** provides details.

Also, two departments overexpended their overall Operations and Maintenance (O & M) budgets:

TABLE 1

Schedule of 1990-91 Overexpenditures at Activity Level

Legislative Assembly		**$**	**%**
Legislative Assembly	$	436,900	5.1
Personnel			
Regional Operations	$	199,204	1.4
Employee Benefits	$	3,767,597	55.5
Staffing	$	398,761	12.5
Health			
Medical Transportation	$	102,879	0.6
Supplementary Health Programs	$	1,254,762	10.4
Social Services			
Correction Services	$	20,433	0.1
Total Activities Overexpended	$	6,180,536	0.6

Department	Total O & M Budget Overexpended by
Legislative Assembly	$ 436,900
Personnel	$ 4,234,999

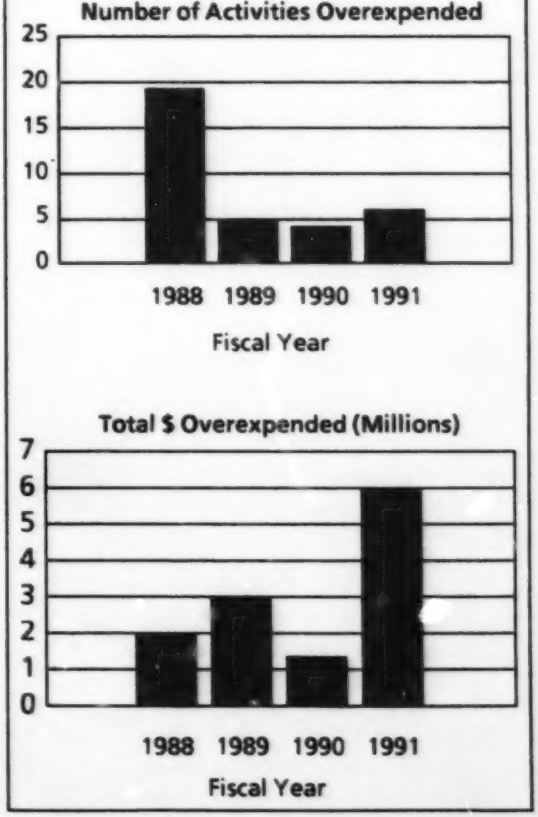
TABLE 2 compares overexpenditures for the past four years.

We have made similar observations in the past three years.

The Government is proposing changes to the FAA to help resolve this problem.

TABLE 2

Comparison of Overexpenditures Between Years



Chapter 3

Legal Aid in the NWT

3.1 Overview of the Legal Aid Program

3.1.1 Types of Legal Aid provided

The Legal Aid Program provides individuals with access to paid legal services which allows them to be represented by lawyers when they cannot afford to pay themselves.

3.1.2 Legal Services Board

The Legal Services Act provides the basis for Legal Aid in the NWT. The Act establishes a **Legal Services Board** to oversee delivery of legal aid services. The Board Members, under the Act, include an Executive Director and representatives of groups such as the Governments of the NWT and Canada, the Law Society of the NWT, and the public.

3.1.3 Delivery of Legal Aid Program

The Board sets general direction for Legal Aid in the NWT. On a day to day basis, the Executive Director and a small staff manage Legal Aid. Also, there are three fully operational legal aid clinics in the NWT, with another being established. They accept applications for legal aid on behalf of the Executive Director which they send to him for approval or rejection.

Independent lawyers provide most legal aid services. Lawyers receive hourly fees at rates established by Regulations to the Act.

Administratively, the Board's day to day operations link with the **Department of Justice**. The Department pays all the Board's expenses and charges them to the "Legal Aid" program. The Board's employees are public servants under the Public Service Act. Legal aid revenues, both under a cost-sharing agreement with Canada and from legal aid clients, are revenues of **Justice**.

3.1.4 Growth in program

We reviewed the Legal Aid program because of recent rapid increases in its costs.

i) Growth in cost per capita compared with rest of Canada

Exhibit 2 shows the growth in the cost of legal aid per capita for each province and territory between 1985-86 and 1989-90. The Government's cost per capita is the highest in Canada. The NWT's growth in cost per capita of 160 per cent for the four year period far exceeds the average rate of growth of 65 per cent of the costs in the other provinces and territory.

ii) Growth in total costs to the Government

In 1990-91, the Government spent $ 4.6 million on the Legal Aid program. **Exhibit 3** shows the percentage growth in Legal Aid expenses over five years and the percentage growth in the cost of the NWT Courts program, compared to the increase in total Government operating expenses.

Over five years, the costs of the court system increased 84 per cent, while total operating expenses only increased 65 per cent. Legal Aid expenses increased 112 per cent.

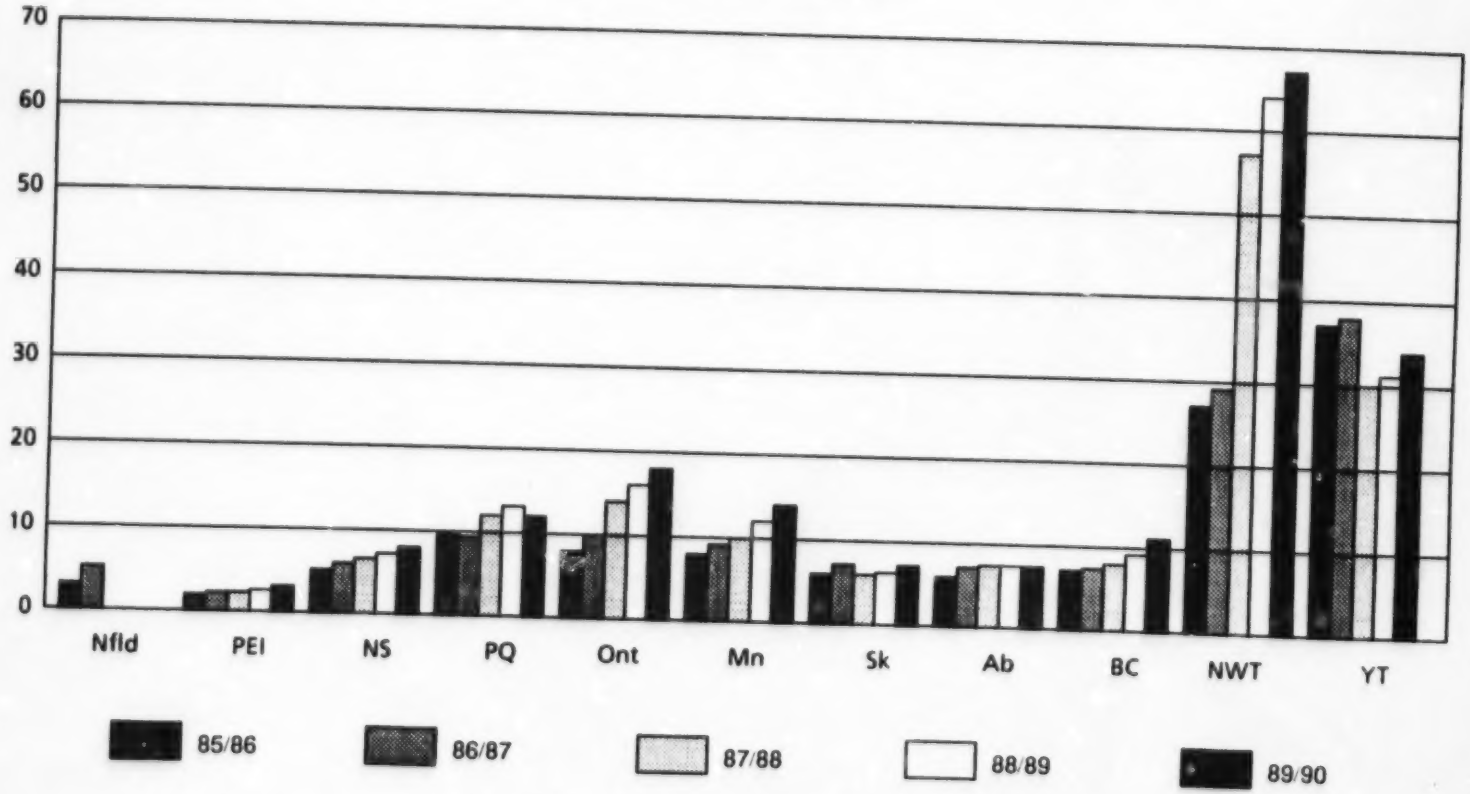
3.1.5 Other Legal Aid issues

In our 1989-90 report, we noted that the Department had not recorded all legal aid expenses in the correct fiscal year. We have no similar observation this year.

Recently, the Financial Management Board reviewed Legal Aid. At the completion of our audit, the review was not complete and was not available to us.

EXHIBIT 2

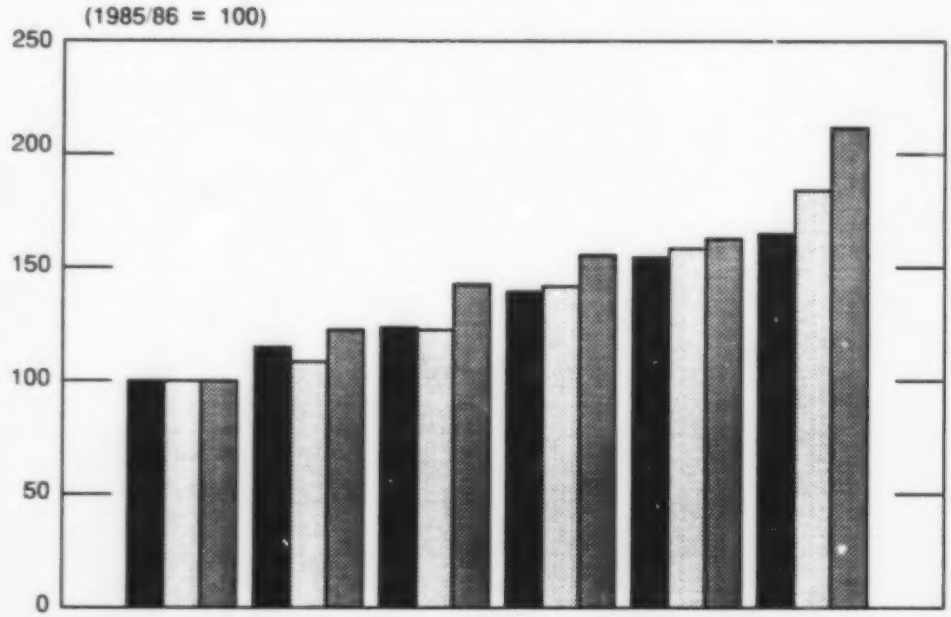
PER CAPITA LEGAL AID EXPENDITURES IN CANADA



Source: Statistics Canada 1989/90 Statistics

EXHIBIT 3

GROWTH OF LEGAL AID EXPENSES COMPARED WITH COURTS AND TOTAL OPERATING EXPENSES



	85/86	86/87	87/88	88/89	89/90	90/91
Total Operating	100	115	123	139	154	165
Courts Expense	100	108	122	141	159	184
Legal Aid Expense	100	122	143	155	163	212

(adjusted for program transfers)

Total Operating Expenses Courts Expense Legal Aid Expense

Total Expenses increased 65%
Court Expenses increased 84%
Legal Aid Expenses increased 112%

3.2 Legal Aid Expenses

3.2.1 Introduction

We reviewed operating statistics in the Legal Services Board's Annual Reports between 1985-86 and 1989-90 to obtain a better understanding of the reasons for the cost increases. One way of analyzing costs is to review changes in the two principal cost components. These are changes in the volume of services, in this case, the number of legal aid

cases, and changes in the cost of each service delivered, for example, the average cost of each legal aid case.

Based on the annual reports, between 1985-86 and 1989-90, the Legal Aid caseload increased 8 per cent (compared with 21 per cent for Canada). But the NWT's cost per case increased some 140 per cent. A small part of this increase was due to a 7 per cent fee increase in 1987, and to higher fees for lawyers who have graduated from lower student rates to fully qualified lawyers rates.

We did not expect such a large cost increase, especially considering that the rates paid to lawyers for Legal Aid work are unchanged from 1987. We discussed the changes with departmental management. Management has concerns about the inaccurate statistics produced by the Legal Services Board. The Board's staff and the Department are working to improve their accuracy. **Justice** feels that the caseload has increased by more than the 8 per cent reported in the Annual Reports. We also reviewed the NWT legal aid caseload statistics reported by Statistics Canada for the same period. The numbers do not agree with the Board's reported figures, but they show the same 8 per cent rate of increase over the period. Finally, the case statistics reported in the cost sharing claim with Canada are available only for 1988-89 and 1989-90, with the latter year showing a decline of 8 per cent.

Until Legal Aid statistics accuracy improves, it is difficult to understand the recent cost increases. Without an understanding of the increases, controlling future increases will be difficult.

Recommendation on Legal Aid statistics.

Management should ensure that Legal Aid statistics are both meaningful and accurate.

Management response: For the past two years, management has centralized the recording of statistics at headquarters. All regional statistics are forwarded to Yellowknife along with the corresponding legal aid applications. We anticipate that this new approach will provide meaningful and accurate statistics, and resolve historical record keeping problems.

3.2.2 Monitoring and controlling Legal Aid expenditures

Legal Aid expenditures are difficult to control. This is because independent lawyers deliver a service to legal aid clients outside the direct control of the Government.

The Government in paying the bills relies on the professionals' integrity.

But the Government can do several things to control this type of expenditure, such as keeping statistics on the billings of each professional, and comparing them to their peers. High billings might be an indicator of a problem. Several provinces use this method to monitor doctors' billings. Another control mechanism is setting an appropriate "billing unit." A billing unit is the basic unit of work used by professionals for billing purposes. A large billing unit might be a flat fee for handling a case from beginning to end. A small billing unit might be time for each task such as a phone call.

The Government can also establish procedures to review billings and show what was done before approving payments, as well as compare whether it is cheaper to use staff or contract lawyers to provide Legal Aid.

3.2.3 Controls over Legal Aid expenditures

We reviewed controls over legal aid expenses in the NWT. The $4,644,000 in 1990/91 expenses comprises three main categories. We estimate amounts spent on each category were as follows:

Staff salaries and other administrative expenses	$ 588,000
Contributions to the legal aid clinics for salaries and other administrative expenses	1,756,000
Payments to professionals for legal aid cases	2,300,000
	$ 4,644,000

We have no observations on the first two categories.

3.2.4 Controls over payments to lawyers

The Government uses mostly external lawyers to deliver Legal Aid in the NWT. Across Canada, some provinces use external lawyers, some use staff lawyers, and others use a combination. The Board does not accumulate statistics on the billings of individual lawyers or firms, although the raw data can be extracted from the Financial Information System. We have seen no evidence that these data are used.

The Board uses a very small billing unit. Lawyers bill for each specific task. For example, "phone call, 0.1 hour." There are no formal procedures, policies or manuals covering the review of billings.

We selected 20 legal aid cases for review from payments made to professionals during 1990/91. Six of the 20 cases included unsigned applications by the Legal Aid client and there is no evidence that the applicant's declaration of financial circumstances is verified. These findings are significant because the application includes a declaration of the individual's financial circumstances that is key in determining eligibility for legal aid.

The files are incomplete. For example, on September 26, 1990 the Executive Director requested a lawyer to provide an opinion for a specific file. During our review in August 1991, the opinion was not on file. An employee of the Board indicated that it had not yet been received. Sometimes, staff review lawyer's billings prior to payment. But the review process, or the extent of the review, is not documented in writing and we were unable to test its effectiveness.

3.2.5 Recent developments

Recently there has been a move towards using a larger billing unit for civil cases with a maximum billing established in advance. The maximum billing is set separately for each case, based on its complexity. We understand that the Department is considering a similar system for criminal cases.

These developments were too recent for us to audit but they seem to be progressing in the right direction.

Recommendations on controls over Legal Aid expenditures

1. *Legal Aid statistics should be analyzed to identify specific areas where cost control efforts would be cost effective.*

2. *Once these areas have been identified, management should develop procedures for controlling and monitoring legal aid costs.*

3. *Management should develop and document procedures for all phases of handling cases from application through approval of payments to lawyers.*

Management response: Existing Legal Aid statistics and other financial information has recently been used to identify specific areas where cost control efforts can be implemented for the balance of the current fiscal year. Through the use of this information, interim procedures were developed in an attempt to control Legal Aid costs. A letter outlining Legal Aid restraint measures was forwarded from the Legal Services Board to all Legal Aid panel members. In addition, the Legal Services Board Task Force and the Beatty Report "Strengths at Two Levels" have both been released. As a result of these combined initiatives, ongoing restraint measures will be developed and implemented during the 1992-93 fiscal year.

A procedures manual specific to the Legal Aid program has recently been drafted. The use of these formalized procedures, combined with existing practices being followed for the taxing and checking of accounts, will improve the documented procedures for handling cases from application through approval of payments to lawyers.

3.3 Legal Aid Revenue

Canada pays a portion of legal aid costs through a contribution agreement. For 1990/91, this amounted to $1,817,475, or 39% of total expenditures.

The Legal Services Act requires the Executive Director to consider applicants's revenues and expenses, assets and liabilities, and assess clients an appropriate "contribution" as a recovery towards the cost of the services. This contribution is revenue to the Government and is credited to **Justice** not the Legal Services Board.

This recovery revenue varies from year to year, but it has consistently been a small percentage of the total costs of the program:

Exhibit 4

Legal Aid Expenses and Revenues

Fiscal Year	Legal Aid Expenses	Revenue Contributed by Clients	Revenue from Clients as a % of Expenses
1985-86	$2,192,000	$21,000	0.9
1986-87	2,666,000	31,000	1.2
1987-88	3,144,000	16,000	0.5
1988-89	3,404,000	19,000	0.6
1989-90	3,566,000	34,000	1.0
1990-91	4,644,000	25,000	0.5

The Executive Director has discretion on how to assess contributions. It is not clear whether the contribution is a 'user fee' to discourage frivolous use; a way of providing legal aid to people with some resources but not enough to pay a lawyer in full; or a method of providing some revenue to reduce net program costs. The criteria used to assess contributions are not documented, so we could not review the assessment of contributions in a meaningful way. In one case, an applicant for Legal Aid provided details of income and expenses so a recovery contribution could be assessed. The applicant declared expenses including a $600 monthly payment on a $25,000 truck used personally, not to earn income. After truck payments, the declaration showed little money left over each month. Legal costs incurred to date are about $1,300. After considering the applicant's declared circumstances, the Executive Director approved the application for legal aid, and assessed a one time initial contribution of $200. We found nothing documented showing how the $200 was calculated.

The negligible contributions create an 'all or nothing' situation. Approval of an applicant essentially means his legal services are free. A rejected applicant pays all his legal fees - or foregoes legal services if unable to pay a lawyer in full by himself.

The 1988/89 Report of the Legal Services Board contains the statement:

> "It is anticipated that recoveries from clients will increase in 1989-90 in that a full time clerk has been hired for the purpose of invoicing clients for contributions on a regular basis among other duties."

The Department reports that the Board now has a full-time clerk, at an annual salary of $31,000, who spends only 5% of her time on revenue related work.

The clerk's task is to invoice and collect contributions assessed on legal aid clients. Also included in the billing and collection process are some costs of **Justice** and **Finance** which are unknown. The current level of contribution recoveries may not cover the administrative costs of assessing them.

We also traced 20 receipts from the date of service to the date of invoice preparation. We noted an average 173 day delay in invoicing. This delay could cost the Government money in lost interest if the recoveries were more significant.

Recommendations on contribution revenues

1. *Management should decide what it wishes to accomplish through contributions, identify the costs of assessing them compared with the benefits received, and determine whether to continue with assessments.*
2. *If assessments are continued:*
   - *applicant's declarations of financial circumstances should be verified to allow proper assessment;*
   - *criteria for determining the amount of assessment should be developed, documented and followed; and*
   - *assessments should be invoiced as promptly as possible.*

Management response: The continuing objective of the contributory program is to instill in the public a perception that Legal Aid is not a free service. The approach has and will continue to restrict the number of non-eligible applicants and act as a deterrent. However, a greater effort will be made to verify financial assessments and develop documented criteria for determining assessment amounts, including time frames for invoicing. In the fiscal year to date, the Legal Aid program has recovered $33,650 with three months to go.

3.4 Annual Reports

The Legal Services Act requires the preparation of an annual report, and its tabling in the Legislative Assembly. As part of our audit work, we reviewed the annual reports from 1987-88 to 1989-90. The 1990-91 report was not available when we completed our audit work in August 1991.

To date, Management has not tabled the Reports in the Assembly as required by the Act. The Department noted that due to an oversight it did not table reports from 1987-88 to 1989-90, but plans to table one for 1990-91.

Recommendation on annual reports

Annual Reports should be tabled in the Legislative Assembly as required by the Legal Services Act.

Management responses: It was an oversight that the annual reports were not tabled from 1987-88 to 1989-90. One hundred and fifty copies of the 1990-91 report were printed and tabled during the winter session of the Legislative Assembly.

Chapter 4
Government Travel

4.1 Executive Summary

4.1.1 Introduction

The Government spends about $70 million annually on travel, excluding the travel of the Boards and Agencies. This includes staff duty travel, relocations, medical travel and vacation travel. This is an estimate because the accounting system does not permit accurate assembly of costs. Travel costs are a high percentage of the Government's annual discretionary spending.

This report contains no observations on medical travel which will be examined during our audit of **Health.**

4.1.2 Operating climate

We are concerned about the management of employee travel in the Government. The observations contained in this report suggest that controls over travel are inadequate. While many of the observations reflect poor internal controls, some also suggest that staff are inadequately informed about what they can claim as valid expenses.

Reviewing travel is difficult because the systems are inadequate. Piecing together a story on most trips requires a major investment in time, and managers are unlikely to get the full costs of each trip easily, even if they ask for them.

The Government uses two different processes to pay for travel costs. It issues travel and accommodation warrants to airlines and hotels, and reimburses individuals for costs they incur while on travel status. The two elements are rarely, if ever matched. Consequently, there is a possibility that costs can be paid twice, as indicated in some of our observations.

On a cautionary note, other governments have found cases where employees have received full- fare tickets and have converted these into excursion or discounted fares using the surplus as a personal cash refund, or to buy extra personal trips. We did not find any examples of this in our review for duty travel, but it is common in Vacation Travel Allowance, which is compensation for additional vacation travel costs related to living in the North.

The Government does not tender its travel business to agencies, over which it could exercise greater control. Instead it relies on the individual traveller to make personal arrangements with the agency of his choice. As a result, much is taken on trust.

To help us assess Government travel we have used two simple criteria:

1. Government travel should be economical. That is to say, it should be done at the least cost which is reasonable in the circumstances.

2. It should be organized to minimize the loss of staff working time while in transit. This simple efficiency guide is critical because Government staff time is expensive, and time spent in travel status can't be used on more productive activities.

As travel costs become more expensive, managers need to question closely whether some trips are needed at all. Improved electronic communications are replacing the need for personal trips in some jurisdictions. Managers should examine whether alternatives to travel can be arranged. For example, we do not know the total number of trips taken in a year, but we identified over 6,000 individual travel advances. These advances are for duty travel only. There are significantly more than 6,000 travel cases in a typical year when VTA and medical travel are included.

For our audit we randomly selected 93 travel cases. We examined each one in detail and found it difficult to locate the documents and then link the various components. We found a surprising number of problems. As this was a random sample, the findings may be representative of all the travel cases. When we debriefed the managers of the departments concerned, they all felt the incidences were isolated cases, but because of the large number of observations we feel that the problems are more widespread than they should be. In particular, we were concerned that some managers rationalized the events after the fact. In our view they should have been more concerned to see that the weaknesses were corrected. In cases where individuals appear to have personally benefitted management should examine them in detail to see if some costs should be recovered or disciplinary action taken.

4.1.3 Conclusions

In general, travel is poorly managed and controlled. This is partly because the policy framework is inadequate and insufficiently detailed to provide a basis for good control. The management and approval system is cumbersome and the FAA is not being adhered to.

Travel authority documents are inadequately prepared and do not provide a proper plan for trips. Travel claims made by employees after the trip do not bring all the pieces together or provide full information so that managers can challenge the costs. Why trips are taken, the routings used and time spent in travel status is poorly documented.

Managers are not doing a good job of reviewing travel claims and eliminating personal items. Advances are poorly controlled and are not being settled within the statutory limits. The Government allows staff to use personally frequent flyer points gained from business travel.

The Government's policy on discount fares needs to be better enforced. Policies need to show who is eligible for upgraded fares and accommodation. Cost savings may be obtained if the Government tenders its travel business.

The accounts coding is weak and needs improvement. The Vacation Travel Assistance Program should be reviewed to see if cost efficiencies can be gained. Relocation assistance should be approved by more senior staff and the procedures regarding moving charges improved.

These general conclusions are discussed in greater detail in the pages that follow.

4.2 Duty Travel

4.2.1 Introduction

The Government spends about $34 million each year on duty travel. We expected to find a comprehensive and clear policy supported by clear directives and guidelines. While the Government has many policies, directives and guidelines they need improvement and consolidation to make them clearer and explicit. Presently they lack, for example, clear statements about who can stay at de luxe hotels or receive upgraded airfares. The results of our audit tests show an unexpectedly high rate of error and excess costs concerning deluxe hotels and upgraded airfares.

Travel authorities do not all come from one source. **Finance** has responsibility to make sure that all government policies comply with the FAA, but **Personnel** is responsible for many of the specific directives. Furthermore, some policy items which should be at the discretion of the Government have become institutionalized in union agreements, which make the task of changing them more difficult. The **Office of the Comptroller General** issues the Financial Administration Manual (FAM) which sets out the financial policies of the Government.

Personnel is responsible for the Personnel Manual which includes specific duty travel rules. Some individual departments (we found eight in our audit) have amplified the government-wide policies with their own. While this may add necessary clarity, they can add to the danger of unequal treatment across the Government.

Travel is similar to any other good or service obtained by the Government, it must be exercised using good financial management and

control. Therefore the FAA is the starting point for travel policies. The FAA sets out the minimum controls necessary. These are then tailored through the other authorities. An example is the two signatures rule under the FAA.

> The FAM sets out a broad duty travel policy:
>
> *"The Government of the Northwest Territories shall pay personal and other travel expenses **necessarily** incurred by employees in the performance of the duties. Employees are neither asked to subsidize the cost of the Government nor invited to indulge themselves at public expense."*

This directive, along with the FAA, establishes important principles. First, travel must be necessary, and it must be economic. The Government will cover all reasonable costs of duty travel, and employees are not expected to pay for these reasonable travel costs out of their own pockets. We come back to these principles later in this report when we discuss our findings.

An important reference is the **Federal Hotel Directory for Government Employees**. The federal government has negotiated discount rates with many hotels in a variety of cities. These rates are available to Government employees travelling on business. For North America, the book contains white pages which lists hotels all employees are permitted to stay in, and green pages which have higher rates and only employees above a certain rank can use them.

Presently, travellers and their managers need to read parts of 2 collective agreements, 2 policy manuals, and departmental travel policies (if they exist), and the federal government guide to understand government duty travel policy. This is unnecessarily confusing. Yet, at the same time, there is insufficient detail in these government-wide duty travel policies to ensure consistency and that the Government receives economical travel.

Recommendation on duty travel policies

There should be a single, comprehensive central Government Duty Travel Policy to be applied consistently, setting out the necessity and economy of travel, as well as rules for who can use business class or upgraded accommodation.

Management response: The Government recognises that it needs to make overall improvements to travel policies. It formed a multi-departmental committee in June 1991 to develop a new travel policy, and responsibility overlap will be addressed. This committee will consider all the issues raised in this report.

4.2.2 Duty travel procedures

The Paperwork for duty travel is complex and could be simplified.

Unlike the federal government which contracts out its travel service to an agent which buys airline tickets for travellers once a trip is approved, the Government relies on individual employees to make their own arrangements. Part of this involves issuing travel warrants for airlines and in some cases accommodation warrants for hotel accommodation. These are the same as purchase orders and need two signatures under the FAA. But the 1991 Travel Warrant does not have a space for the required commitment signature and consequently does not meet the requirements of the Act. Accommodation warrants are discretionary. If a traveler does not use one, he or she is reimbursed the hotel costs incurred. Accommodation warrants can save money because government travel is GST free if paid directly, but not when it is paid by the traveller. The Government policy is to use accommodation warrants where they are deemed to be cost effective or where their historical use makes them more practical.

> Of the 93 items we reviewed, 73 involved the use of Travel Warrants, Accommodation Warrants, or both. Of these 73, 23 lacked the authority required by the FAA.

Travel authority

As travel is similar to any Government contract, it must be approved in advance by individuals who have the authority. To make sure that the trip is economical, approvers must satisfy themselves that the trip is necessary, that the itinerary and other arrangements are shown in detail and that the least cost option has been chosen, given the status of the individual traveller. Just as no responsible manager would sign a purchase order for goods without all the details, those approving travel should similarly insist on all details being spelled out. Approval also needs a second signature from a finance officer certifying that funds are available.

We found many cases where the approval was given on inadequate information. The details of the cases reviewed raise a question of whether they would have been approved if all the details had been presented at the start. An approval which shows only "Duty Travel" as the reason for a trip is insufficient detail to allow a manager to seriously consider whether the trip meets all the requirements. Similarly, if the approval merely shows the departure point and the ultimate destination, as many do, it is inadequate to determine whether the traveller has exercised proper economy or is gaining some personal benefit from the trip. We would expect as a minimum the authority to cover the total cost of the trip, the airfare and a requirement that the traveller must obtain the most cost effective airfare, the hotel and whether the room rate complies with the federal hotel directory, rental car if required, and the amount of any cash advance. Without this minimum information, managers are not correctly applying their conferred responsibility.

> Of our 93 sample items we were able to trace 60 to travel authority forms. Of the 60 travel authority forms we reviewed, only 26 had both approvals as required by the FAA.

Sometimes a traveller may be able to save the Government money by staying over a weekend, where a discount airfare saves more than the increased cost of hotels and meals. If this is being done, the "net" expected savings, taking into account any extra paid staff time, should be shown.

A **Renewable Resources** employee from Yellowknife travelled to Ottawa, and stayed for 5 nights at a hotel listed in the 'white pages' of the federal hotel directory at $71 a night. The employee paid for the hotel directly at $100 plus GST of $7 a night. The hotel accommodations cost the Government $180 more than if the employee had obtained the government rate and avoided the GST by having the Government pay for the room directly.

In another department, an employee attended a three day course in North Bay and spent four more days on business out of a total trip of 17 days. His travel claim included several personal costs and he was paid for all his time as duty travel although several days were of personal time. He also claimed reimbursement for some costs included in the pre-paid course fees. There are no comments on the travel claim explaining the course arrangements, in particular what was included in the fees. It was signed by a manager without any challenge on the excessive time or costs. We brought this case to the attention of the Deputy Minister who took immediate corrective action, including discipline against the employee. He also used the case as an example to reinforce the message of good management and control among his senior staff.

This could have been prevented if the manager who approved the travel claim had all the information associated with the trip and carefully compared the claim with the services provided by the course fee.

Some departments, including **Health, Justice, Safety & Public Services, and Social Services** have recognized the need for additional information, such as travel outside the NWT, and have developed their own attachments to the authority form. This supplementary information varies between departments.

Recommendation on travel authority

Managers should ensure that travel authority documents provide all essential information and review them critically to ensure that travel is necessary and economical.

Management response: The revised policy will contain the requirement for travel authorities to show all essential information and that this is critically reviewed for content, necessity and economy.

Travel advances

For good cash management, managers should ensure that travel advances are not in excess of the traveller's needs and not outstanding any longer than necessary. FAM 820-5 requires that advances be repaid within 10 days of returning from a trip. It allows recovery by payroll deduction if an advance is outstanding longer than 30 days.

There is no policy preventing travellers from receiving early advances, or requiring that the amount should be reasonable for the proposed trip.

In the 1991 fiscal year we identified 6,231 travel advances issued and settled during the year. A month-by-month analysis shows that many are not being settled promptly. In March 1991, 854 were settled although only 716 were issued in February and March. Travellers are cleaning up their travel at year end to avoid being listed in the public accounts as overdue, but records revealed that some 145 advances were outstanding for more than 100 days during the year.

Where circumstances warrant, the **Comptroller General** can authorize standing advances, although these are rare. At March 31, 1991 only six standing advances totalling $7,000 were outstanding.

But because employees are holding on to trip advances they are in fact getting the equivalent of a standing advance. For example:

An employee of **Renewable Resources** received a $2,000 advance cheque on April 6, 1990 for "duty travel - training and standards" from "Fort Smith to various settlements" between April 2, 1990 and September 15, 1990. He settled the advance on November 16, 1990 refunding $1,618 unspent. His travel claim showed only two separate trips in September and October, both to Yellowknife with a total claimed cost of $382. Management informed us that he is in continuous travel status during the summer months on fire related activities. During the summer of 1990, this employee submitted four other claims totalling $1,625 for which he was paid directly not using part of the $2,000 advance. This advance was an unauthorized standing advance, and the travel authority was inaccurate.

The Department informed us that it had requested standing advances for several employees for summer travel when it acquired the Forest and Fire Management Program in 1988 but **Finance** had denied the standing advance request. The Department could not find a copy of its request.

Management's chief tool in monitoring advances is a travel advances report which shows the amount and age of outstanding advances. We noted that this report contains uncleared items going back as far as 1985. The report is unsuitable for control purposes. To make it useful, all of the old items should be investigated and cleared.

Recommendations on travel advances

1. ***Travel advances should not be excessive, and not be issued in advance of need.***
2. ***Travel Advance Policies should be enforced throughout the year.***
3. ***The travel advances report should be cleared of old items.***

Management response: FAM outlines the use of travel advances. We will examine the need for standing advances in the policy review. We are examining the travel advance report to clear old items.

Control of warrants

The Government issues warrants to many different airlines, travel agents, and hotels. The warrants are as good as cash. The Government must rely on its internal controls to ensure that warrants are not misused. **Finance** controls the stock of prenumbered, blank warrant books through a log book and issues them to departments as needed. Completed warrant books are returned to **Finance**. We requested a particular travel warrant book for audit. **Finance** records show that it was assigned to **Government Services**. Neither department could produce the book.

Airlines, travel agents and hotels invoice the Government for the warrants. Normally, a department pays from the invoices. There is no cross-check from the copies of warrants attached to the invoice to travel claims to ensure that the trip was actually taken. There is a risk of duplicate payments, or payments for trips not taken.

The travel practices do not require travel claims to include an original airline ticket stub or hotel invoice where the airfares or hotels are paid by warrant. This is important to provide some evidence that a travel fraud did not occur, provide additional evidence that the trip occurred, and provide a record of the total cost of the trip.

Recommendation on control of warrants

Invoices from airlines, travel agents, and hotels should be cross-checked with travel claims to ensure that travel occurred, and all invoices or ticket stubs be attached to the travel claim, even if prepaid by the Government.

Management Response: We will develop procedures to ensure that the recommendation is followed.

Review and approval of travel claims

Review and approval of travel claims are key steps in travel management. People reviewing claims should be trained but there is no training in place to help people do a good job.

Travel claims are first reviewed by the traveller's supervisor, usually a manager, then it goes to an administration clerk for payment authority. The FAA requires this process. Often neither reviewer performs a proper review, each relying on the other to perform the task. Checklists of required steps in approving travel claims would help. At least one department, **Health**, has this type of information.

We observed cases of unsigned claims, incorrect coding, travel routes not corresponding with the Travel Authority, and car rentals not approved in advance, although this is required by Government travel policy.

We also noted claims where meal allowances had increased, but an employee who completed a travel claim was not aware of the new rates. Sometimes, Departments amended the traveller's claim to include the new rates. On some occasions they did not.

Recommendations on approval of travel claims

1. ***Finance should clarify procedures for travel claim approval.***
2. ***Approval procedures and checklists should be documented.***
3. ***Travel claim reviewers should be trained.***
4. ***Departments should inform employees of travel policy changes, such as new meal allowances, as quickly as possible.***

Management response: We will develop and implement procedures, documentation and training. We will consider the communication of policy changes as part of the policy review.

4.2.3 Other duty travel observations

Airline bonus points

Airlines have "frequent flyer" programs which allow travellers to earn free flights by accumulating bonus points based on miles travelled. The Government allows employees travelling on business to collect and use the bonus points for personal use. As far as we are aware, only this Government and that of

Prince Edward Island in Canada allow their employees to make personal use of travel bonus points.

If these points were used for Government duty travel they would be a significant discount on airfares. But there are two obstacles to be overcome. First the airlines allocate points to individuals, not centrally to their employer. There is presently no way to change this. Amending the policy to make them usable only for duty travel would require either a potentially expensive monitoring system, or rely on the employees to declare the points earned from duty travel. In addition, the Government would have to decide what to do about points received to date but not yet used. Second, as the employees have been used to the personal benefits, withdrawing them now may affect morale adversely.

Travel agent bonus plans

Certain travel agents that do business with the Government have their own bonus plans for the employees who actually make travel arrangements. The Government does not allow participation in these bonus plans, but has no way of knowing if employees participate. However, it may not be cost-effective for the Government to monitor this.

Communicating Government policy on bonus plans

Government policy allowing participation in airline bonus plans and prohibiting participation in travel agent bonus plans is not included in any Government Policy manuals. Instead, letters were circulated stating the policy.

Routing of trips

Trips between the western and eastern Arctic are sometimes made via southern Canada, without the travel authorization approving this. Of nine trips to the Eastern Arctic from Yellowknife reviewed in our sample, three, or one-third, went via the south.

While some southern routings may be unavoidable due to airline scheduling, travel approvals should consider cost minimization, including fares, hotels and staff time, the Northern Preference Policy, and whether the southern route gives the traveller a personal benefit.

We note that flights on major carriers between Yellowknife and Iqaluit are available on Mondays and Fridays. Flights are also available from Yellowknife to Resolute Bay on Wednesdays and Saturdays. For example,

- A **Public Works** employee travelled from Yellowknife to Resolute Bay via Montreal. The individual left Yellowknife on Thursday and stayed in Montreal until Saturday. On Saturday he travelled from Montreal to Resolute. The travel authority only mentions travel from Yellowknife to Resolute via scheduled flight and a charter to Grise Fiord. No mention is made of Montreal.

  There is no documented approval for the routing to Montreal. The flight to Montreal was paid for by a separate travel warrant which the Department cannot locate. The two documents are not cross referenced. The Canadian Airlines International schedule shows a flight from Yellowknife to Resolute on Saturday. Also, a Yellowknife to Iqaluit routing on Friday with a connecting flight to Resolute, may have been cheaper considering both out-of-pocket costs and staff time. The documents do not show the Yellowknife/Iqaluit flight being full. There is no evidence that the economy or necessity of the Montreal leg was considered by the person who approved the travel claim.

- An employee of **Transportation** made two separate trips to the Eastern Arctic, via Montreal either going or returning, with stop-overs, private accommodation, and rental cars, with no prior authorization. One trip was to Sanikiluaq, and Montreal is a logical routing.

When we discussed these cases with the Department, we received after-the-fact rationalizations as to why the charges were reasonable. However, in our view the circumstances of the trips do not clearly justify the arrangements and costs incurred. For example, the trip to Sanikiluaq was made by three employees who spent one day on site, in October 1990 at a total cost of over $12,000, apparently for consultation on a dock. On their

return, two employees flew to Edmonton, stayed overnight and returned to Yellowknife on Saturday. But one employee spent a weekend in Montreal where he rented a car at Government expense. The Department stated that the employee needed a car to store bulky tools and to visit floating dock manufacturers, although we could find none that were open on the weekend.

On another occasion, the same employee combined a conference in Saskatoon with a vacation trip to Montreal. While the employee combined his duty and VTA airfares, he still incurred two ticket change fees totalling $262, and rented a car in Toronto en route to Montreal. Management told us that the car rental was to drive to a hotel, although the hotel has a free shuttle service to and from the airport.

We are concerned that the people approving travel and subsequent claims have not shown concerns for employees making ad hoc changes to approved travel plans or paying attention to economy aspects.

Discount airfare

The duty travel policy (FAM 820-1) states "Excursion air fares shall be used when available and if travel plans permit". Excursion fares means any fare within the multitude of options at less than full-fare economy.

> In our sample of 93 duty travel transactions, there were 64 cases where we were able to determine the fare basis from the airline ticket or an invoice. Only 2 of these were excursions.

In general, discount airfares are available only when the travel arrangements are made in advance, and the trip includes a Saturday night. However, given the policy, we are surprised at this low rate of discount fare utilization. Obtaining discount airfares when cost effective is one way of reducing the cost of duty travel. This requires that whenever possible, travel be planned far enough in advance to obtain discount tickets, and that managers who approve travel and all travellers use discount airfares whenever they are cost effective.

It is worthwhile noting that blind adherence to a policy of obtaining discount airfares could itself lead to higher costs. For example, if a business trip needs to last from Monday to Thursday, obtaining a discount fare normally requires a Saturday night stay, additional costs to the Government such as hotels and meals, perhaps overtime on weekend travel and certainly unproductive staff for Friday.

In duty travel, the benefits of any discounts go to the Government rather than individuals and there is less incentive to use discount fares for duty travel. In fact, there is an incentive for individuals to use full-fare tickets for duty travel because the travel bonus points they get are greater for full fare than for discounts. We did not find any examples of this in our sample.

Recommendation on discount airfares

The travel authority form should state a requirement that the traveller obtain the most cost-effective airfare rate: business, economy or discount,and approvers should ensure that the rate selected is appropriate and economical given all the circumstances.

Management response: We are examining the adequacy of travel documentation as part of the policy review.

Upgraded accommodation and air travel

> Of the 93 sample items 20 involved trips where the traveller ventured south of the N.W.T. border, although the ultimate destination may have been elsewhere in the N.W.T., and 73 involved solely northern travel.
>
> Of the 20 "southern" trips, 4 used business class or equivalent airfares. The travellers were 2 from management, 1 consultant, and 1 unionized employee. None of the travel authorities showed business class. The subsequent claim did not show why business class was used. The premium paid for business class over full economy was $607 in these 4 cases. None of the 20 southern trips used discount airfares.

Eight southern trips involved hotels not in the government directory, although hotels which were in the directory existed in the cities visited. There was nothing on the travel claim showing why the non-directory hotels were necessary. The additional cost for all eight cases was $592.

Three travellers stayed at directory hotels, but paid room rates higher than in the federal government travel book. There was no explanation of why the higher rates were necessary. The additional cost in these 3 cases was $316.

In the 73 "northern" travel items four individuals stayed at directory hotels, but paid rates higher than the directory, without explanation. The additional cost of this was $268. Many hotel charges could not be verified because of incomplete information on the claim.

The federal hotel directory rates in Canada represent large savings over posted rates. The Government can use the federal travel directory rates to obtain discounts.

Recommendations on upgraded accommodation and air travel

1. *The Travel Policy should clearly state which levels of employees are eligible for upgraded airfares and hotels, and in what circumstances.*
2. *Employees should have to justify using other than the prescribed accommodation and rates.*

Management response: Agreed. We are examining the eligibility of employees and levels of service in the policy review.

Airline bookings

We estimate that the Government spends about $30,000,000 each year for air fares on all travel. Despite this being a major expenditure, the Government does not tender its travel to a travel agency. Instead employees are allowed to make their own arrangements. Commonly, travel agents offer volume rebates or other incentives to large accounts. At present, the Government cannot take advantage of these benefits since individuals are responsible for their own arrangements.

	$ millions
Major Airlines	$ 18.8
Major travel agents	6.2
Travel card	3.1
Other airlines and agents	1.9
	$ 30.0

Recommendation on airline and hotel bookings

The Government should consider tendering its travel agency business to one or more agencies.

Management response: The Department has reviewed airline travel issues and consulted with other governments on the matter. Recommendations are currently with the Minister of Government Services for consideration.

Problems with travel forms and incomplete information

Accounting for good travel management requires connecting the various documents from any particular trip. A manager approving a travel claim where an employee has paid airfares directly, should ensure that the Government has not already paid the airline. Management trails are necessary to document and approve travel, and avoid duplicate payments. Existing management trails are poor because the travel forms do not require a cross-reference, travel forms are not completed properly and airlines and hotels are paid directly.

A travel claim may show meals, taxis, and other small charges for a trip, but not airfares or hotels. Often it does not name the hotel or airline, let alone dates or voucher numbers of accommodation or travel warrants.

Duplicate payments can occur. For example, an employee from **Transportation** and one from **Finance**, travelled to Montreal, staying at

the same hotel. In both cases, the Departments paid the hotel bill twice: once based on the invoice given to the traveller and the second time based on a statement sent directly by the hotel to the Department. In both cases, the hotel identified the duplicate payments and returned the duplicate cheques to **Finance**.

Of the 93 trips we reviewed, 54 contained no cross-references between the travel claim and a travel or accommodation warrant. Of the 54 without cross-references, we were able to find the other related documents only 7 times.

In 45 of the 54 cases, we were unable to determine whether we had a complete picture of the trip.

This raises the question of whether the Government paid for the airline and hotel directly on separate vouchers? In 45 out of 93 cases, we were unable to obtain sufficient information from the system to determine this. Without a management trail, there is a risk of duplicate payments for the same item.

Interview trips

Of our 93 sample items, 4 of the 20 southern trips and 4 of the 73 northern trips were for employment interview related travel.

There was inadequate information on the traveller's claims such as whether the traveller was an interviewer or an interviewee. There was no description of the position(s) interviewing/interviewed for, or whether it was an initial or final interview.

Where the traveller was an interviewer, we rarely found names and locations of the candidates interviewed. Similarly, if the traveller was an interviewee, it was not clear whether he was currently a Government employee.

We note that video interviewing is becoming more common in southern Canada, at least for initial interviews. We discussed this with management of **Personnel** who indicated that the Government is not currently using this technology.

Recommendations on interview trips

1. *Interview travel authorities and claims for trips should contain sufficient information to allow the approver to judge that the trip was necessary, and that the best option was used.*
2. *The Government should investigate whether the use of video interviews would help reduce travel costs, including staff time.*

Management response: Competition files indicate the applicants interviewed when staff members travel to interview them. This information will be attached to future travel claims. The Department is not planning to introduce video interviews at this time.

Rental vehicles

Travel policies should deal in some detail with rental cars which may be subject to abuse, or personal use. Car rental rates vary widely. The Government of Canada publishes a Car Rental Directory with special rates for government travellers. Car renters offer optional collision damage insurance, but government insurance usually covers their own travellers who need to rent vehicles. FAM 820-1 states that "Car rentals if required, shall be approved in advance as part of the itinerary when a trip is authorized."

We are not aware of any other policies on rental cars. We would expect policies to indicate that employees should not buy rental insurance. Presently, the optional insurance costs up to $16 per day.

Recommendations on rental cars and trucks

1. *Vehicle rentals should be approved in advance, with reasons shown.*

2. *The Government should ensure that its own insurance provides blanket coverage equivalent to the collision insurance and instruct employees not to pay directly.*

Management response: We agree that certain categories of expenditure should be reviewed in advance. The FAM travel directive, section 820-1, addresses this issue. We will include this in the policy review.

The Government's insurance coverage provides blanket coverage equivalent to the collision insurance and employees have been instructed not to pay directly.

Coding errors

In our sample of 93 duty trips, 14 were incorrectly coded. The detailed coding is not set up well. Because of this, finding out how much the Government spends on travel is not as easy as it could be. Our own estimates are different from the details retrieved directly from the accounting system.

There are more than 25 detail codes for travel costs, and these sometimes overlap. There are two detail codes which bear the same caption: "Student or Inmate or Other Travel". Because of the haphazard codes, aggregating them to provide information for decisions is difficult.

Although one might question the value of isolating taxi costs as opposed to other duty expenses, a detail object code is provided for it and therefore, user departments are expected to add up the total to all taxi costs claimed on a travel claim and charge them to this detail object code.

Recommendation on coding errors

Coding accuracy should be encouraged, both by the manager who approves the travel claim, and by random checks by Finance.

Management response: We agree with the recommendation and will examine the use of object codes in the travel policy review.

4.3 Employee benefit travel

The Government spends approximately $19 million annually on travel that benefits employees personally. The largest component of this is Vacation Travel Assistance.

Vacation Travel Assistance (VTA) is provided to employees, to compensate them for the additional vacation travel costs with living in the North. Employees have the option of air or land travel. Airline VTA is both the more expensive and the more used of the two options. Our comments deal only with air travel. Individual VTA varies depending on the employee's category and years of service. For example, employees in the Union of Northern Workers have their VTA based on the collective agreements. Employees and their dependants are eligible, but must actually travel to obtain it. VTA is calculated as the **lesser** of the actual cost of the vacation trip (to anywhere), and full fare rates from their present home to Edmonton, Winnipeg, Montreal depending on which part of the NWT the employee lives. **Personnel** maintains VTA files for each employee to prevent duplicate payments and verify that employees' claims for dependants are correct.

VTA for Management and NWT Teachers' Association employees is an allowance based on full fare airfares for employee and dependents from home to point of departure. The employee must apply for VTA, but actual travel is not required.

After five years of service, employees become eligible for two VTAs per year, if they live in isolated communities.

Normally, if employees paid for their own vacations, they would attempt to save money booking ahead and obtaining discount airfares. But the amount of VTA is based on the full economy fare from the employee's home to the point of departure.

In the case of management employees and teachers, the VTA is a cash allowance equal to full fare economy. For union employees, the Government issues a VTA travel warrant to a travel agent with a maximum value of the full economy fare. The employee can use this warrant to travel as far as they are able. Some of the destinations shown on VTA travel warrants we reviewed include California and Mexico. While these destinations represent good value achieved from the employee's perspective, it raises the question of whether the Government is spending more on vacation travel than it needs to. If employees can convert their full fare warrants and get greater mileage out of discount tickets, perhaps the Government could substitute discount fares for full fares and get the savings itself.

It is difficult to estimate the number of discount fares on VTAs, as there is not usually a ticket available for review. But we estimate that at least 9 out of 18 VTAs we reviewed used discount airfares. In contrast, discount airfares were used on only two of the 64 duty travel trips where we could determine the fare basis. While duty travel is sometimes difficult to anticipate far enough in advance to obtain discounts, some trips, such as for training, are undoubtedly planned in advance and could take advantage of discounts.

Recommendations on vacation travel assistance

1. ***The Government should evaluate the relative costs and benefits of changing VTA to a discount fare allowance from the present full fare.***
2. ***Personnel should consider charging all VTA to an allowance to save on administrative costs.***

Management response: Any change to the current method would have to be negotiated with the unions and included in the next collective agreement. The Department is preparing for collective bargaining with the Teachers' Association and the Union of Northern Workers. The Department will analyze VTA and prepare options for collective bargaining.

4.4 Relocation costs

Relocation costs are another part of employee benefit travel. This includes the cost of moving personal effects. We estimate moving costs to be about $2.2 million in 1990-91.

Employee Relocation is administered by **Personnel**. Payments are made directly to employees for moving themselves and their families, and directly to moving companies for the cost of moving belongings. There is a clear description of relocation benefits in the collective agreement, but not in any policy manual.

Relocation benefits are payable for inward removal of new or transferred employees where the Government pays costs from hiring location to the job location. Outward removal of employees who have resigned is also covered. Outward costs are based on the number of years an employee worked for the Government where this is more than one year, and ranges from 25% to 100% of total costs. There are weight limits on effects shipped. Employees are supposed to pay the cost of moving belongings that exceed the weight limit. The Government does not require employees to promise to repay inwards removal costs if they resign prior to a certain date.

We noted cases where the weight exceeded the limit but the cost split between the Government and the employee was not documented. In an inward removal, the authorized weight allowance was 15,000 lbs but the actual weight was 18,600 lbs. The employee was billed an amount of $4,295, but should have been billed $5,839. The excess cost of $1,544 was paid by the Government.

In an outward removal case, the Government paid $9,108. The employee was charged only $108, although there is nothing on file to show

how this sum was calculated or what the correct amount should be.

Given the high cost of moving, we would expect the Government to tender its moving business. Contract procedures for carriers should comply with the FAA and meet standards of good internal control. Carriers rates are not negotiated in advance and the purchase order does not contain any rate quotes or limits on total charges. In essence, the removal purchase order is a blank cheque.

We noted that removal authorization forms are approved by only one person. This does not comply with the FAA. Furthermore, the person approving removal contracts is often at a low level and may not have authority to contract.

Recommendations on employee relocation

1. ***The Government should tender its removals.***
2. ***Approval of specific moves should satisfy the FAA and procure economical moving.***
3. ***Excess weight charges should be recovered from employees .***

Management response: The Department has been directed to rotate removals among the various companies in the region. To reduce future removal costs, the Department has prepared an Options Paper regarding removal tariffs, and guidelines will establish the rates the Government will pay for moving expenses, and detail procedures for the moving companies.

Approval of the removal tariffs will result in all future removal authorizations complying with the FAA.

All excess freight charges will be recovered from employees. The Department will develop procedures to identify the recovery amount and action.

Chapter 5

Asset Management in Government

5.1 Executive Summary

Introduction

Since 1981 the Government has invested over $1.1 billion in capital assets, including the Housing Corporation, but not including the other Crown corporations such as the Power Corporation, Arctic College and WCB.

Assets fall into many different categories. Obvious assets are buildings, equipment, and motor vehicles. But the Government also has significant cultural assets where the dollar values are hard to establish, and the intrinsic value to northern heritage and culture is significant. Some cultural assets may include donated items such as carvings, pictures, prints, etc., as well as collections of books, photographs and videos purchased with operational funds but having long-term value.

We examined the way these assets are managed in six departments: **Municipal and Community Affairs (MACA), Public Works, Government Services, Culture and Communications, Renewable Resources, and Finance**. These departments were selected based on:

- the substantial amount of assets under their control; and
- the existence of attractive and extraordinary assets or their role as a co-ordinating or regulatory agency.

This is the first of several reviews we are planning on assets.

Why good physical asset management is important to the Government:

These assets represent a major part of the Government's infrastructure in the Territories. In addition, other assets worth many millions of dollars have been transferred to the Government from Canada as various programs have been devolved. While the current replacement price of all these assets is not known, it is likely to be over a billion dollars. Additionally, the Government has entered into many long term lease agreements for buildings occupied for program reasons, and may be responsible for the care and maintenance of these.

The asset portfolio is growing significantly year by year. Managing the total asset portfolio to make sure that the Government's investment is safeguarded is a major management challenge for Departments. Asset management in government situations calls for special processes and detailed records.

Interpretation

Within the Government authorities system, physical assets are classified into three primary categories; Inventories, Controllable Assets and Capital Assets, defined below.

Assets - Definitions

Inventories

- *items retained in bulk storage or warehouse facilities*
- *includes bulk fuel, finished arts and crafts, goods held for re-sale, liquor, gravel, and consumable operating supplies*

Controllable Assets

- *item has a normal life of one year or longer*
- *is not consumable, is used in operations and is not for re-sale*
- *has a cost of $200 or more, or is less than $200 but attractive and susceptible to theft. (all capital assets are controllable assets)*

Capital Assets

- *property of a relatively permanent nature used in operations - not intended for re-sale - have an estimated cost of $5,000 and over*

Main Findings

Physical asset management in the GNWT is not consistent between departments. Overall, the Government does not know with any certainty what it has, and how well it is managed. It has made rules but does not insist that they be followed.

Governments generally invest fewer resources in controlling physical assets than for financial assets. Because Government financial accounting systems write off the cost of assets as they are acquired, they lose some visibility in financial terms and this contributes to less stringent controls. To manage physical assets which are "off the books" compared to financial assets which are included, requires Governments to invest in supplementary record keeping and control systems to manage and control them. Yet when funds are limited, such system investments often are of lower priority or have no priority at all.

The management and control climate is quite different for physical assets compared to financial assets. Physical assets come in many shapes and sizes with many different custodians. Often it is more difficult to get management to pay attention to managing and controlling physical assets because the accountabilities are different. Managers are seldom rewarded or penalized for their management of physical assets.

Yet the consequences of poor management and control of physical assets can have significant financial implications. They are an investment in the future. Buildings can last for many years, vehicles for several, art and other cultural assets have unlimited life if they are cared for properly. Future generations of northerners will benefit from today's investments in physical assets provided appropriate steps are taken to safeguard them and maximize their life. The cost of replacing physical assets increases every year and the Government has limited financial resources to reinvest in physical assets. It is in this climate of austerity that we decided to examine how the Government manages and controls its physical assets. In this first review, we focused primarily on the systems and processes used, and on whether management has an adequate information system.

Many smaller items such as computers, furniture and similar items are not well controlled. These fall into a category of attractive items, usually with a street value, and are susceptible to theft. In many cases, because of poor or non existent records, no one would know if an item is stolen or missing.

What we found is not encouraging. While some managers are dedicated and concerned, the evidence suggests that many are not. Some feel that they are being criticized unfairly because they already exercise appropriate control over assets, but often this is a question of degree. The examples and issues identified in this report are largely self-explanatory. Management should take immediate steps to identify what they have, initiate proper asset identification and protection, and implement the management and control practices, already largely defined by the Government.

5.2 Departmental Controllable Asset Inventory Systems

Several departments do not keep proper control systems for the various types of physical assets. This is required by section 61 of the Financial Administration Act and supported by various financial policies and procedures. As a consequence, departments often do not know what assets they have or whether they are at risk.

Section 61 of the FAA requires departments to keep adequate records of public assets. Financial Administration Manual Policy 705 specifies that controllable items shall be accounted for using records that can be audited. Furthermore, Financial Information System Policy 130 requires departments to establish systems to safeguard public property, including the items described here. These authorities set out clear rules for departments to follow. None of the authorities is discretionary.

Each year the government spends over $100 million on assets with $160 million spent in 1991. Under the government financial accounting system, assets are expensed annually and not identified in the accounts in

the same way that the private sector deals with physical assets on the balance sheet. Thus, as the financial accounts do not provide a way of identifying fixed assets, governments need supplementary inventory systems to tag, identify and control these valuable items. The government has set up rules but these are not being followed. The rules require:

- annual inventories completed by independent persons with the results sent to the **Comptroller General's** office;
- maintenance of complete and accurate records;
- reconciliation of physical counts to book records;
- moveable assets, (such as micro computers) be numbered and identified with Government markings;
- tags be attached to office equipment;
- asset records (of all kinds) protected against loss.

Ironically, there is nothing in the rules that requires the various assets themselves to be protected against specific loss from fire, flood, etc., except for a broad requirement for departments to assign custodial duties for attractive items. We could find no definition of what those custodial duties are. The rules do not define care and maintenance standards, requirements for insurance or procedures to physically protect public property. We could find nothing in writing showing what the **Comptroller General** is supposed to do with the annual inventory counts.

The Government does not have a definitive value for the controllable assets that it owns. It has an estimate that is used for insurance purposes. It does not need to know the total value of its assets for present accounting purposes. But to understand its replacement cost exposure, this information may be of interest to elected members.

The departments we reviewed do not include in their central inventory records assets under the stewardship of the regions. **Renewable Resources** counts its regional assets but head office does not normally ask for and does not receive a copy. The head office and its regions each maintain different systems. There is no departmental consolidation. This year **Renewable Resources** asked each of its regions to submit inventories of its assets to comply with a request from the **Comptroller General**.

Neither **Finance** nor **Culture and Communications** have established controllable asset inventory systems as required by FIS 130 and FAM 705. The other departments we reviewed, **MACA, Public Works, Government Services, and Renewable Resources**, have set up inventory systems but they need improvements.

In the different departments various personnel may be the physical custodians. In **MACA** the asset clerk carried out an independent annual inventory count, but **Public Works, Government Services, and Renewable Resources** did not. In these departments, the clerk sends an asset listing to the custodian with a request to make any necessary amendments (additions/ deletions) as appropriate.

None of the departments we reviewed had proper systems to advise the inventory clerk when items were added to, or deleted from the inventory. Instead, the departments rely on individual custodians to advise the inventory clerk and request a tag for new items, or they rely on the knowledge of the asset clerk. If individuals forget to advise the clerk about changes, items will be missing from the inventory records. None of the departments has a system to verify the whereabouts of assets assigned to terminated employees or to recover these assets from such employees where appropriate.

Without adequate systems, the Government has no way of knowing whether its assets are being safeguarded. It is also difficult to plan for the future replacement of assets if the assets on hand are not properly documented and inventoried.

In March 1991, the **Comptroller General's** Office as per FIS 130 sent a letter to 24

departments and regions requesting the submission of controllable assets inventories for the first time. As of August 1991, more than half had not responded.

Recommendation on asset inventory systems

The Comptroller General should ensure that departments establish and maintain detailed controllable asset inventory systems as required by the Act and Policies and that his Office receives an inventory of controllable assets in the proper format each year. If departments have difficulty with their asset records or inventory verification, the Comptroller General should provide clarification and assistance.

Management response: Our Risk Management section, in conjunction with the Government Accounting section, will be evaluating this issue during 1992.

5.3 Capital Assets Inventory

Public Works maintains a capital assets inventory of government owned and leased buildings and facilities. This inventory is set up on a community by community basis and is an important element in the information required by the Government's insurance underwriter. But as the Department points out, other departments are also responsible for significant inventories of large assets, including **Transportation**, the **Housing Corporation** and **MACA**. We have not attempted to analyse whether there would be economies of scale if the Government was to have one system that all departments could use.

Financial Information System Policy 130 outlines the minimum requirements for detailed assets listings. It requires: a building numbering system, location, legal description, type of construction, occupancy, responsibility, and replacement cost. FIS 130 also covers property leased by the Government and requires that it be controlled and safeguarded.

There are gaps in the inventory with individual assets and classes of assets not included. We expected to find all capital assets under the

Assets in the inventory include:

Office buildings
Houses
Garages
Apartments
Schools
Tank farms
Gas tanks
Game cabins
Camp trailers
Satellite dishes
Storage sheds

Government's record keeping jurisdiction included, even where departments other than **Public Works** are the operational custodians. Other departments with large inventories of major assets are **MACA** and **Transportation**.

For example, the Government owns satellite receiving and local transmission equipment in some 25 communities. Only one is in the inventory.

A list of airport assets received from **Canada** was provided as part of the transfer. The Government has 48 community airports but the inventory lacks details on the majority of them. **Public Works** notes that these are the responsibility of **Transportation**. Yet the airports at Fort Wrigley and Fort Liard are in the **Public Works** inventory.

Legal descriptions are required by FIS 130 in order to properly identify Government assets in each community. In Yellowknife we noted in excess of 150 units included in the inventory without proper legal descriptions, and in some cases, even the street addresses were missing. Examples of the Yellowknife listing; include "3 and 4 bedroom rowhouses", "bachelor apartments", "warehouse". The rowhouses have no street address and no legal description, nor does the warehouse.

Another example is a boarding house completed in 1985 in Montreal. There is no other information on the asset listing, no legal description, location or address. Listing an asset just as"Warehouse" or "Boarding House" shows no proof of ownership and fails to meet

the procedures set out in Financial Information System Policy 130.

There is a lack of consistent information on assets that are included. We attempted to verify the land titles registration of some assets but the lack of precise legal descriptions made it impossible to search the records.

For example, **Public Works** has an assets maintenance management system. But assets need to be identified before they can be included. Buildings and other capital assets need an asset number to be included in the maintenance management system and to receive utility services. According to the rules, departments with these assets should get this number from **Public Works** and provide it with the following detailed information:

- replacement cost;
- street address;
- legal description;
- age;
- lot size;
- status of the building;
- utilities;
- occupancy; and
- if applicable, a copy of the lease.

We were informed that some departments are circumventing this process. Apparently they ask for an asset number in order to buy heating fuel with promise to provide the other information later, although they often fail to complete the process.

Some regions do not provide copies of leases to the Department. **Public Works** does not have the authority to ensure that other departments or regional offices comply with the policies and procedures established for asset management.

One example is the regional lease management sub-system. This deals with information on leases expiring and rent reviews provided to the regions by **Public Works** headquarters. This system is used by only four of the six regions. The two regions that do not use the system have computer systems that are not compatible with the system used by **Public Works'** headquarters and the other regions. This makes it difficult for regions and headquarters to maintain effective communications resulting in information gaps and duplicated effort.

The Department is developing a more comprehensive asset management system. In this regard they have prepared a draft - "Capital Asset Inventory Directive". This deals only with **Public Works** own assets.

We understand that **MACA** is also presently working on a new "Infrastructure Inventory" system. This new system is designed as an on-line system that will provide integrated information for the users. The **MACA** system will list all assets by community and designate the owners and operators in each case. **MACA's** management feels that it and the communities need detailed asset information for planning and budgeting and this is an attempt to upgrade the information presently available. Accurate data on the assets will ensure that information gaps are eliminated and planning can be carried out using comprehensive information.

Recommendations on capital assets inventory

1. ***Public Works should develop clear criteria for the government capital assets inventory, consistent with the FAA, FAM, FIS, communicate this to all the parties concerned and monitor the extent to which they are being used.***
2. ***Public Works should complete its new capital assets directive as quickly as possible.***
3. ***MACA and Public Works should examine the feasibility of developing a single comprehensive capital assets management system that can be used jointly to meet their needs for detailed asset information.***
4. ***The current inventory for all owned and leased property should be updated to include all pertinent details as required by government policy.***

Management response: The Department is prepared to work with Finance and other custodian departments and agencies in defining responsibilities and establishing consistent inventory criteria. Once this is done, the Department's Capital assets

Directive will be revised and completed accordingly.

Whether or not it is feasible for MACA and Public Works to develop a single, comprehensive system will be examined with MACA. MACA agrees with examining the benefits of a single comprehensive capital asset management system jointly with Public Works.

Updating the asset inventory is an on-going process as new assets are acquired and surplus assets disposed of. The Department is also actively adding missing information such as property legal descriptions.

MACA and **Public Works** are both developing or upgrading their capital asset systems. This may be a duplication of effort and cost. It may be more efficient and less confusing to users if the two departments would jointly develop a single system that would meet the needs of all government operations.

5.4 Central Agency Controls

Central Agency control over government fixed assets is inadequate.

Section 12 (2)(c)(ii) of the FAA requires the **Comptroller General** ensure that all public property is controlled properly. The Financial Administration Manual Policy 705 designates the **Comptroller General** as the responsible accounting agency for controllable assets. Under Financial Information System Policy 130, the **Comptroller General** has developed procedures for dealing with controllable assets. However, other departments also have significant roles in asset management, including stewardship and record keeping.

Given the available legislation and policies, we expected to find outlined procedures and compliance with the rules. Until March 1991, the **Comptroller General** had not required departments and regions to submit annual inventories of controllable assets although this has been a requirement for at least the past six years according to FIS 130. FIS 130 also requires departments to provide copies of inventories reconciled to accounting records on an annual basis. We found no evidence that this procedure is complied with or requested by the **Comptroller General**.

Under the FIS procedures, minimum requirements are listed for controllable assets records. We expected the **Comptroller General** to have set up systems and processes to ensure these standards are monitored and met.

However, the **Department of Finance**, which includes the **Comptroller General's** Office, has itself not met the standards defined by the legislation, policies and procedures.

The Government does not know the value of assets transferred from Canada, but the present day replacement cost of all assets owned by the Government, may run into billions of dollars.

Given the high capital asset values, we expected to find inventory data used in planning and budgeting, both departmentally and centrally. But there has been no encouragement from Central Agencies to assist departments to meet the defined standards. Even where departments do not properly verify the existence of their inventories, or where there is insufficient independence in annual counts, the Central Agencies have shown little interest.

Departments have invested varying levels of resources in asset management systems but these are generally are not reconciled to financial records as required by FIS 130, and the Central Agencies have not taken steps to insist that the rules be followed. Unless appropriate use is made of these systems, their value is seriously reduced and government assets and funds are at risk.

Without adequate asset inventory management systems it is difficult for departments to effectively plan purchases of replacement or new assets. Furthermore, it is difficult for Central Agencies to have any confidence in budgeted figures without knowing that an adequate central review system, as contemplated by the laws and policies, is working. The consequences are that scarce resources may be wasted.

Recommendations on central agency controls

The Comptroller General should:

1. *Verify the existence of adequate assets inventory and planning systems in departments and ensure these are correctly reconciled to financial records.*
2. *Ensure that annual inventory verification records, in appropriate detail, are submitted by departments on time.*
3. *Monitor all assets policies and procedures to ensure that they are appropriate and being followed.*

Management response: The Department of Finance will work in consultation with Public works and MACA to evaluate current inventory control systems and determine their accuracy.

5.5 Year End Purchases of Computer Equipment

There is a year end bulge in purchases of computer equipment. Year end purchases are not necessarily bad, if the need is clearly established and the purchases are priorized. It is not clear whether departments are spending year end surplus funds without a realistic plan.

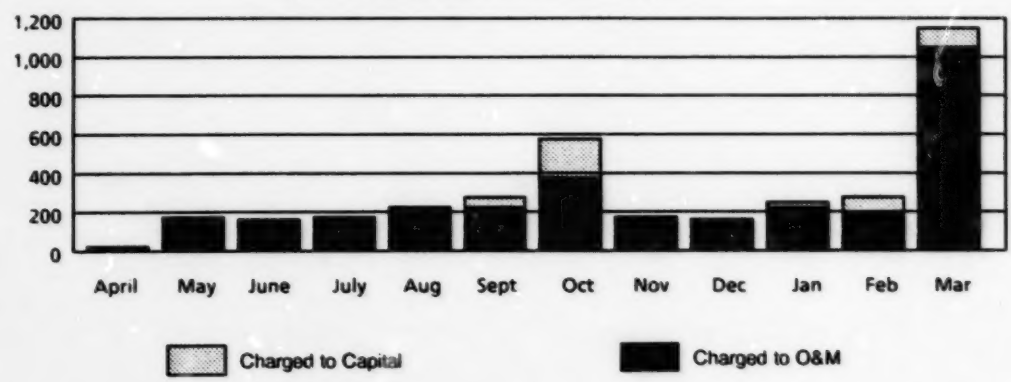
The Systems and Computer Services branch (SCS) of **Government Services** reviews all requisitions for computer purchases to monitor compliance with government computer acquisition standards. SCS provides these standards to all departments, according to FAM 1002 "Acquisition of Computing Equipment and Services". In particular, the branch management informed us that it monitors fourth quarter purchases to ensure that departments are not spending year end surpluses on computer equipment.

The review by SCS of year end computer purchases clearly appears to be ineffectual. The significant bulge in spending strongly indicates that monitoring has had no effect. Systems and Computer Services currently has no authority to ensure that departmental computer purchases are properly planned and controlled.

Total purchases for the year were $3.5 million. About 50% of the 1990-91 purchases of computer equipment and software was spent in the fourth quarter and 31% in March alone. We found no concrete plans based on demonstrated need for this equipment. It

Exhibit 5

MICROCOMPUTER & SOFTWARE PURCHASES FOR 22 MAJOR SUPPLIERS IN 1990/91 (Total purchases $3.5 million)



For these 22 major suppliers, $3.1 million (89%) is charged to O&M

indicates that acquisitions are spontaneous based on resources available, not on demonstrated need, and adds to the government's problems with fiscal restraint and budget cutbacks.

Computers and peripheral equipment are a particularly important category of assets for control. They are expensive and valuable as desirable items to individuals. There seems to be no master plan for computer purchases in the Government. In particular, standardization may be desirable not only for purchases, but also for staff training, usage, and most importantly, support services.

Recommendation on year end purchases

Future acquisitions of computer assets should be based on planned and approved additions and replacements, not on the availability of surplus funds. The monitoring role of SCS should be strengthened and the branch should be given veto power where the government's spending criteria are not met.

Management response: Currently, computer hardware purchases are to be routed through SCS. There is potential to strengthen the monitoring role in this area.

There is currently no formal review at year end although monthly internal reports are produced.

5.6 Accounting for Government Assets

Departments are not properly classifying asset purchases for government financial accounting purposes.

Capital expenditures are separately budgeted by departments, reviewed by central agencies and approved by the Legislative Assembly. The actual purchases should be identified as capital and shown as a separate line item in the Government's financial statements which should relate back to the Main Estimates.

Government policy now defines capital assets for budgeting and financial accounting classification purposes as being items over $5,000 each. However, the classification rules are being broken, partially because they are poorly worded and complex. Departments are purchasing large units, such as computer systems and modular furniture made up of components. They are classifying the individual components as O & M expenditures where they are individually under $5,000, even though the whole system may cost significantly more than that.

An example is the modular furniture purchased from one supplier at a cost of $861,000 in 1990-91. Some 47% was charged to operational expenses, not capital. Similarly, computer purchases during the year were identified at $3.5 million, but $3.1 million, or 89% was not classified as capital.

Breaking down capital asset purchases into acquisitions of individual components costing less than $5,000 is an attempt to get around the capital expenditures classification. The intent of the classification rule is being circumvented and departments are misclassifying capital assets as a result. This can be an advantage to departments which do not have a large enough capital budget, or who are trying to spend a year end surplus of operational funds. It may be misleading to members of the Legislative Assembly.

Recommendation on accounting for government assets

The $5,000 classification rule should be clarified to avoid misclassification and provide a proper basis for financial accounting of assets. The Comptroller General should monitor the accounting allocations on a sample basis, to ensure that the intent of the policy is being met.

Management response: Agreed. This area is under review by the FMBS and the Office of the Comptroller General.

5.7 Poor Controls

5.7.1 Computer equipment

Computer equipment inventories are inadequately controlled.

In 1989, a Financial Management Board directive required departments to inventory computer hardware and software. This was to be submitted semi-annually to **Government Services**. The Systems and Consulting Services (SCS) group of **Government Services** is still assembling this inventory. SCS has sent several requests to departments asking for the information but not all had complied at the time of our audit.

Finance has submitted its computer equipment inventory to SCS. However, our tests indicated that none of the equipment in **Finance** was tagged with a GNWT identification number as required by FIS 130.

Computers are attractive items and many are now small enough to carry around. Computer purchases have proliferated in recent years. In theft situations, computers are difficult to recover without conspicuous identification. Where such items have not been appropriately identified and inventoried, departments may not even know if they are missing.

Recommendation on computer equipment controls

The inventory of computers and peripheral equipment should be completed without delay and all computer equipment tagged as required.

Management response: All headquarters computer equipment has already been inventoried for the Controllable Assets Inventory System of Government Services. The next step will be to add the regional equipment to the inventory. However, it is not clear at this point who is responsible for carrying this out, each department on its own, or to have it coordinated by the Regional Controller. We will discuss this with the Department of Finance before it is pursued further.

5.7.2 Cultural assets

Cultural artifacts such as carvings, paintings, and embroidery, representing northern life are on display in several areas. Many are not well maintained or uniquely identified as government assets and are vulnerable to loss and damage.

Renewable Resources has a substantial stock of artifacts, paintings and prints, together with stuffed animals in both headquarters and district offices. These items are not tagged as required by policy, nor are they included in inventory listings.

In the **Legislative Assembly** building, an embroidered tapestry of some value is hung with pins on a meeting room wall. A lack of proper support has allowed gravity to stretch it out of shape.

Many individual pieces are valuable and attractive, with a ready market value. Valuable items are vulnerable to loss through theft and deterioration through poor handling.

Recommendation on poor controls - cultural assets

All valuable artifacts should be identified, tagged and inventoried. Items on display should be presented in a way that prevents theft or physical deterioration.

Management response: The observation is correct and the hanging has been removed and returned to Economic Development and Tourism. All artifacts on loan to the Legislative Assembly, or that have been presented to us, are inventoried and controlled. Steps have been taken to get advice on the best method of preserving the artifacts that are in our possession.

5.7.3 Photograph and video collections

Some valuable assets which may be difficult, if not impossible to replace if lost, are at risk due to poor custodianship.

Culture and Communications operates both Audio Visual (TV and Radio) and Photography units. Both units exercise inadequate physical control over collections.

For example, the Photography Unit has an extensive collection of photographs used for government publications and programs. The

Unit has a duplicate set of photographs but these are kept in a cabinet immediately beside the original collection. Neither the original nor the duplicate copies are kept in fire proof cabinets. A fire could destroy the entire collection.

The Audio Visual Unit maintains a library of its products and keeps them in a storage closet. The closet is environmentally unsuitable for film storage. There are no controls for dust or humidity and, at the time of our audit, the room was not fire-proofed or equipped with a sprinkler system. As with the photograph collection, the entire video collection, both originals and copies, is kept in the same room. Both are vulnerable in the event of fire.

These assets represent a significant investment by the Government. Photographs and films are an important record of the life, culture, and geography of the NWT. Many items cannot be replaced if seriously damaged or lost. Insurance funds will not replace the historical and cultural significance of lost photographs and film collections.

Recommendation on controls over photograph and video collections

The Department should provide appropriate storage and fire suppression for the photographic and film/video collections, and should keep duplicate copies of these collections securely in a separate location, preferably off-site.

Management response: These collections are now stored in areas protected by sprinkler systems. In addition, off-site storage is being prepared for copies of this material.

5.7.4 Equipment usage

Systems set up to control video equipment usage in **Renewable Resources** and **MACA** are inadequate.

The Yellowknife District Office of **Renewable Resources** has a sign-out system for video equipment. Forms are provided to record the dates and users of equipment removed. This system is not followed.

Video equipment is removed without records being updated. The equipment is kept in an un- monitored area, which is an open room with no access control.

In **MACA** we tested the inventory control system and found a video camera that was not tagged or included in inventory. The Department has a sign-out system for video equipment which uses symbols to denote equipment returned. Items supposedly returned were not signed in. The system also calls for a proper description of the items taken out and returned, including serial numbers and model numbers. These were omitted from the forms. The equipment descriptions shown on the control forms were generic as "TV", "VCR", "Video Camera", etc., an inadequate trail to track unreturned items.

A sign-out system for portable computers is similarly weak with no system or signatures to verify items returned.

Most of the items mentioned above are valuable and attractive. The lack of adequate security and controls makes them more susceptible to loss.

Recommendation on controls over equipment usage

Renewable Resources and MACA should store valuable items in an access restricted area, and enforce all control systems for sign-out and return.

Management response: Renewable Resources will ensure that its procedures for sign-out and use of equipment are followed.

MACA does not dispute that there were some missing serial numbers and model numbers, however, all assets were properly accounted for and no assets were lost. The suggested improvements to the asset inventory and sign-out system were made immediately.

5.8 Government Services Warehouse

5.8.1 Inefficiencies

The Warehouse is not being operated efficiently. The Government is losing the opportunity for gains in economy and efficiency.

Government Services operates a Yellowknife warehouse. This is divided into two distinct areas, one for the Liquor Commission and one for the rest of the Government. The following comments do not apply to the Liquor Commission portion which we did not review as part of this audit.

The Department provides warehouse storage space to several departments. **Government Services** itself uses less than half for its own purposes with the rest used by **Culture and Communications, Health, Renewable resources, Economic Development & Tourism, Petroleum Products Revolving Fund, and the Executive Council.** **Petroleum Products** stores pumps, meters, hoses and other service parts.

Culture and Communications is the largest user followed by **Renewable Resources**. The other departments occupy smaller areas. **Culture and Communications** stores substantial publications, pamphlets, brochures, maps, books, general reports and publications. Its Heritage Branch stores a number of artifacts. **Renewable Resources** stores mostly publications. Both of these departments have their own staff members responsible for their warehouse inventories.

The **Executive Council** stores unused furniture as well as papers of former members. The furniture has been in storage for several years, although it has not been declared surplus. Thus the furniture cannot be disposed of or made available to other departments which may have a use for it.

Government Services has four personnel trained in warehouse operations. They manage their own operation and are not responsible for the other departments' items or storage areas. Each department, and often divisions within departments, are responsible for their own areas including stocking shelves and withdrawing items for use. This places a heavy burden on untrained staff. **Culture and Communications**, and **Renewable Resources** staff have to move heavy cartons of material onto and from shelves as high as 3 to 4 metres. None of this staff is trained in warehouse work or lifting heavy materials, whereas the **Government Services'** staff are. The departments have discussed their concerns with **Government Services** but with no resolution.

The involvement of staff from several departments adds to inefficient operation of the warehouse. **Government Services** has staff on site whereas the others have to send people from other locations.

Untrained staff doing heavy lifting and other warehouse work may be vulnerable to injury and consequent claims for compensation.

Recommendation on warehouse

The Financial Management Board should authorize the departments using the warehouse to negotiate an arrangement for Government Services to take over all operations with trained staff. Government Services should hold discussions with user departments to develop and maintain appropriate record keeping systems which meet the needs of users.

Management response: The Department does not currently have the resources to manage specialty inventories for other departments.

5.8.2 Heritage Branch asset storage

Culture and Communications - Heritage Branch stores artifacts and other assets in the warehouse, and these items are not properly documented or maintained.

The Museums Branch has a substantial number of artifacts stored in the warehouse. Many are covered in dirt and dust. There are no environmental controls and some of the items appear to be deteriorating.

We reviewed the inventory for these items which we found to be inaccurate and irrelevant. For example, the inventory lists 100 items as

"boat" - location warehouse. There are about eight boats in the warehouse, and all are distinctive. The 100 inventory list items were later shown to be boat parts, but nobody knows what or where they are. The inventory cannot be verified because the Museum cannot specifically identify the items on the inventory or their location in the warehouse.

In January 1991, the **Territorial Audit Bureau** reported on the Museum's operations. The report raised concerns about the lack of inventory and asset controls.

The state of the museums artifacts is disturbing. The lack of adequate environmental control over the condition of artifacts may result in lost value in both monetary and cultural terms.

Inadequate inventory records again point out the waste of resources in maintaining systems and processes that are operationally irrelevant.

Recommendations on Heritage Branch asset storage

1. *The Department should keep records of what it has, what it adds, and what it removes from the warehouse.*
2. *Artifacts and other valuable items stored in the warehouse should be properly stored with due regard for their value and condition.*

Management response: Culture and Communications has prepared and is acting on a complete action plan to address the issues raised by the Audit Bureau.

Government Services recognizes that the central warehouse is not properly designed nor equipped for the storage of artifacts. Space constraints at the Northern Heritage Centre dictates that these artifacts be stored in the central warehouse.

5.8.3 Obsolete items

The warehouse contains items that appear to be obsolete and have little or no value.

We reviewed the records of **Culture and Communications** and **Renewable Resources** concerning their items stored in the warehouse. **Renewable Resources'** inventory is being updated. **Culture and Communications** has an accurate inventory of its items.

In the warehouse, **Culture and Communications** takes up a great deal of shelf space with copies of obsolete and redundant documents. The Department has been making progress in disposing of these items. While this process is not yet complete, this initiative is appropriate. However, the Department has no system to link sales and distribution of publications to inventories on hand. The inventory records are not tied in to any system and sales are separate. There is little meaningful information available on which to base production.

For example, the Department has about 10,000 copies of a publication entitled Inuit/Dene Life Series. This is the second order for the publication, the first being ordered for EXPO 86. The most recent order was dated February 1986 at a cost of $31,800 for 5,000 sets. This publication is for sale but only a few copies have been sold during the past five years. Cartons of this publication sit in the Warehouse collecting dust and taking up shelf space. The over-purchasing and over-stocking might have been avoided if better information linking demand, inventory and sales had been available.

Another example of excessive costs relates to the 1988 Revised Statutes. Originally the department ordered 5,000 copies and contracted for that quantity. The Territorial Printer reviewed the order and recommended that 3,000 copies be produced. The price for 5,000 copies was $309,000, or $61.40 per copy, and the reduced run of 3,000 saved only $39,000 because the department had to pay paper costs for 5,000 copies under its original contract. The cost per copy increased to $90.00. The Department informed us that the excess paper has since been used elsewhere.

The above examples illustrate how the lack of attention to inventories and order quantities can translate into money lost situations. Inventories that are not tied to sales forecasts, or actual sales achieved, can provide misleading information regarding order quantities and the target markets for products.

Prior to ordering the 1988 Revised Statutes, staff believed that the 1974 Revised Statutes was out of stock and had been for nearly 2 years. The new order for 5,000 sets was based on the belief that 5,000 copies of the 1974 Statutes had been ordered and the Government had been out of stock for nearly 2 years. After the order was placed for the 1988 Statutes, 750 sets of the 1974 Statutes were discovered in the Warehouse.

The lack of effective management of warehouse inventories contributes to inaccurate information regarding publication orders. If proper storage and inventory management practices are in place, timely and accurate publication decisions can be developed.

Recommendations on obsolete items

1. ***Departments should review regularly all their inventories, including consumable or saleable items to identify obsolescence.***
2. ***Culture and Communications should investigate the feasibility of developing an automated sales/inventory system for the publications distributed through the Territorial Printer.***
3. ***For the excessive inventory of Inuit/Dene Life, the Government should consider ways to reduce the inventory, perhaps by using them as official gifts, if sales volumes are unlikely to increase.***

Management response: An automated sales system, utilizing FIS has been implemented and an automated inventory system is being evaluated for cost effectiveness. Arrangements have been made for Economic Development and Tourism to take large quantities of the Inuit/Dene Life series to Spain for Expo '92.

Determining the proper order quantities for publications should be based on accurate and timely information. A wrong decision can be costly in both real dollars and missed opportunities. The Territorial Printer's office has taken steps to improve the information collected regarding sales and it now has an up to date inventory system in place. It would be beneficial if both of these systems were automated and linked together in order to ensure that the distribution of publications is accurately tracked. An integrated system would also provide a cross check on the inventories of saleable items.

5.8.4 Duplication of effort

Goods receipt practices at the warehouse are inefficient.

Goods purchased from suppliers outside of the NWT for Yellowknife delivery are first shipped to the warehouse. The warehouse staff examine the packing slips before turning the goods over to a contract delivery company for shipment to the department concerned. The warehouse staff do not open cartons and verify the contents against the shipping documents unless the cartons are damaged.

There appears to be little or no benefit from the goods being shipped to the warehouse in the first place if they are then trans-shipped to user departments. By continuing this process, the Government is adding to overall costs. While there is no information available on the additional costs of trans-shipping from the warehouse to departments, any cost seems to be unnecessary, particularly as the warehouse staff make no real checks on the goods received.

Recommendations on duplication of effort

Goods destined for departments, not the warehouse, should be shipped directly from the supplier to the department. Goods destined for the warehouse should be opened and verified by warehouse staff, and then stored in the appropriate departments' section.

Management response: The Department has taken initiatives to reduce the incidence of delivery of incoming goods to the warehouse. New procedures issued recently dictate that only goods going into storage, purchased in advance of being put to use or purchased in bulk for distribution to departments are to be routed to the warehouse.

5.9 Assets Transferred to Municipalities - Municipal and Community Affairs

Assets, including buildings, purchased or constructed by the GNWT and later transferred to municipalities are not dealt with effectively. The legal status of the assets transferred is often not clear and there are inadequate procedures to make sure the assets are properly protected after transfer.

We reviewed five transfer agreements between **MACA** and various municipalities. Four were "Custody and Control" agreements, and the fifth was a "Turnover" agreement.

Where properties or other assets were transferred, we expected to find detailed agreements setting out the responsibilities of both parties for protecting and maintaining them. The agreements would include proper legal descriptions, the need for and type of insurance, maintenance standards required and provision for periodic inspection to ensure these standards have been met. This was not done effectively in the agreements we reviewed.

MACA has drafted new Transfer and Custody and Control Agreements. The drafts clarify ownership of the assets, establish responsibility for insurance and outline maintenance standards. We still have concerns about the use of proper legal descriptions for the assets transferred.

In conjunction with the new Agreements, **MACA** is also preparing a new manual entitled "Guidelines for the Implementation of Capital Authority Agreements". We have not reviewed this manual. We understand that the manual is designed to outline the capital authority agreement process, provide an understanding of the transfer agreements and establish clear lines of responsibility for transferred assets.

Municipalities often have inadequate resources to purchase, construct and maintain capital assets. The Government plans and erects a building, or purchases other assets such as fire trucks, and then transfers the completed asset to the municipality concerned.

If a building is erected by the Government for a municipality, there are two fundamental ways of dealing with the transfers:

1. The Government owns the asset and allows the municipality to use it.

2. The asset is given to the municipality for its own use. The municipality then legally owns it.

In either case, an appropriate transfer document is needed so that all the parties know what kind of transfer has been made, as well as their responsibilities and risks. The biggest risk is the possibility of loss through fire or other damage. Included in this risk is the need to protect third parties against injury or loss through using the building, or damage to other properties and injury to people through fire or other occurrences. If the building is lost or damaged through fire, the community loses the use and someone will have to pay for repairs or replacement. Given the limited resources available to most communities, unless the asset is insured, the cost of replacement would likely fall on the Government.

For example, the Arena Complex in Fort Good Hope was transferred to the Custody and Control of the Community Council on October 28, 1989. The property is not on the Government's asset list. We spoke to the Controller at the Fort Good Hope Dene Band Council Office on August 15, 1991 who advised us that the community does not carry insurance for this property.

The Fort Good Hope Arena is covered by Government insurance even though it is not on the asset schedule provided to insurers. The coverage is provided through the catch-all blanket coverage contained in the Government policy and a section that provides for assets not

scheduled. The concern is that neither the community nor the Department listed the assets for insurance purposes. This indicates that the system has problems which need to be corrected.

Recommendations on assets transferred to municipalities

MACA should:

1. ***Set standards and establish clear responsibilities for maintenance and insurance of the assets.***
2. ***Provide proper legal description of the assets and ensure that all transfers are properly registered.***
3. ***Review existing transfers to ensure insurance and maintenance is current.***
4. ***Establish a procedure for inspecting assets transferred to ensure that insurance is of the right type and is current, and that the asset is maintained to appropriate standards.***

Management response: The published guidelines for the implementation of Capital Authority Agreements have addressed all concerns raised in this report about this matter.

Chapter 6

Items Reported in Previous Years

6.1 Department of Finance

The Financial Administration Act (FAA) requires that the Government control expenditures at the activity level. This is not being done by all Departments.

This has continued in the current year. We discuss this issue in Chapter 2.

6.2 Department of Health

Delegation to Health and Education Boards

In 1990, we reviewed the delegation of authority from the Government to Health and Education Boards.

One of the issues we raised in our 1990 report was that certain Boards had large cash surpluses which they used to earn interest income.

Current Year Follow-up

Given the complexity of the issues and the time taken to respond to our recommendations, we did not do a specific review on this issue.

However, during our audit we noted that:

> The Financial Management Board directed the Department of Health to reduce its proposed current year contributions to certain Boards by $1.9 million, this amount being those Boards' cash surpluses. This essentially forced the Boards to reduce their cash surpluses.

6.3 Department of Social Services

Financial controls over payments to beneficiaries of social assistance programs are inadequate.

Prior Year's Observation

We noted in 1987-88 that the Government pays out more than $18 million in social assistance annually. The controls over these payments were inadequate. Some of the problems we found included cases where payments had been approved by only one person without the essential control of another review, and the issuing of multiple cheques to avoid a limit of $1,000 per cheque.

In 1989-90 and again last year, the Department's Management indicated that they were working on correcting these problems. They did not expect final resolution for some time. This was because some of the corrections anticipated involve changes to forms and computer programs, and the involvement of other departments. The Department has been working with **Finance** and **Government Services** to make the necessary changes to the forms, cheques and procedures.

Current Year Follow-up

Over the past year the Department has continued to have problems in its financial controls over payments to beneficiaries of social assistance programs. Management indicates that they have developed a detailed workplan to address the problems.

We will examine the controls once the workplan has been implemented.

Management Response: A special committee review of all major financial controls was completed in September 1991 and a report prepared providing recommended solutions which are currently being implemented.